Chapter 8.—Loans and Advances.

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Sanction.

*134. The powers of the Government of India and of Provincial Governments to sanction loans and advances other than the miscellaneous advances dealt with in Chapter 9 are detailed in the Book of Financial Powers.

Estimates.

*135. Provision should be made in the estimates for all loans and advances which can be foreseen and which are not repayable within the year; and the Government of India has accordingly directed that each local Government should make a timely estimate both of the advances and of the recoveries of the coming year, and should communicate it to the Accountant General for entry in his estimates. As regards loans and advances coming within the Provincial Loan Account, see Article 137 below.

1. This article applies also to the miscellaneous advances dealt with in Chapter 9.

Provincial Loan Account.

Advances from Provincial Allotments.

*136. Loans and advances (other than the miscellaneous advances referred to in Chapter 9) sanctioned by each Provincial Government are brought on to an advance and loan account for the province concerned. The Provincial Loan Accounts were opened with the actual balances outstanding on the 31st March 1888. Further sums are placed at the disposal of Provincial Governments on a consideration of the available resources of the Government during the ensuing year and of the demands presented.

*137. In November of each year each Provincial Government should submit to the Government of India an estimate in Form 20 of the loans proposed to be made and the expected recoveries. Upon a consideration of the several demands and of its available resources, the Government of India will determine what sum is to be allotted for the purposes indicated in the ensuing year, and will distribute it as nearly as possible in proportion to the necessities of each province. The Government of

No. 205.

Page 56, Article 134 (as amended by Reforms List of Corrections No. 24, dated 1st April 1921).

Reconstruct this article as under :—

134. The Government of India have full powers to sanction the loans and advances chargeable to the head "Q.—Loans and Advances by the Central Government" and the local Government and other authorities have such powers as are delegated to them under the rules made by the Government of India.

[C. A. C., Vol. I, 8th Edn., No. 205, dated 1st April 1923.]

No. 206.

Page 56, Article 135, Note (inserted by Reforms List of Corrections No. 25, dated 1st April 1921).

Delete this note.

[C. A. C., Vol. I, 8th Edn., No. 206, dated 1st April 1923.]

No. 204.

Page 56, Chapter 8, Heading—

Change the heading to "Loans and Advances by the Central Government."

[C. A. C., Vol. I, 8th Edn., No. 204, dated 1st April 1923.]

No. 24.

Article 134—

Substitute the following for this Article:—

134. "The Government of India and the local Governments of the Governors' provinces and Burma have full powers to sanction the loans and advances dealt with in this chapter, while the other local Governments have such powers as are delegated to them by competent authority.

(C. A. C., I., 8th Edition, Reforms List, No. 24—1-4-21.)

No. 25.

Article 135—

(1) *Cancel the last sentence of this Article commencing with the words* 'As regards loans and advances, etc.'

(2) *Add as a note under the Article :—*

"NOTE.—The local Governments of Governors' provinces and Burma may make their own rules for the framing of estimates for these loans."

(C. A. C., I., 8th Edition, Reforms List, No. 25—1-4-21.)

No. 27.

Article 137—

Cancel this Article.

(*C. A. C., I., 8th Edition, Reforms List, No. 27—1-4-21.*)

No. 26.

Article 136—

Cancel the heading 'Advances from Provincial allotments' *above this Article and substitute the following for this Article :—*

"**136.** Loans and advances sanctioned by the local Government of a Governor's Province or Burma are brought on to an advance and loan account for the province concerned. These loan accounts have been entirely provincialized from the 1st April 1921."

(C. A. C., I., 8th Edition, Reforms List, No. 26—1-4-21.)

No. 207.

Pages 56 and 57, Articles 136, 138 and 139—

Delete these Articles.

[C. A. C. Vol. I, 8th Edn. No. 207, dated 1-4-1923.]

No. 345.

Pages 57 and 58. Article 140, as substituted by correction slip No. 208, dated 1st April 1923.

Insert the following between "December" *and* "following" *in lines 8—9 of note 2 to this Article :—*

"the first half-yearly instalment in repayment of principal will not be due until 31st December."

[C. A. C., I., 8th Edition, No. 345, dated 1st October 1924.]

No. 208.

Pages 57 and 58, Articles 140 and 141—

Substitute the following for these Articles :—

Conditions of Repayment.

140. The following are the rules under which loans and advances are usually made to local bodies in areas administrated by the Central Government :—

(*a*) The terms of loans may in very special cases extend to 30 years, but ordinarily the advances should be repaid within as short a period as possible.

(*b*) The term is to be calculated from the date on which the loan is completely raised or declared by the Government of India to be closed.

(*c*) Dates may specially be fixed for the payment of the instalments.

(*d*) Instalments paid before the due date will be taken entirely to principal, unless, of course, any interest for a preceding period is overdue.

1. When a loan of public money is taken out in instalments the first half-yearly repayment should not be demanded until six months after the last instalment is taken; meanwhile simple interest only should be realised. But should it appear that there is undue delay on the part of the debtor in taking out the last instalment of a loan, the Government of India may at any time declare the loan closed, and order repayment of capital to begin. The Accountant General should bring to notice any delay that appears to him to require this remedy and he should take this step whether there are any dates fixed for the taking of instalments or not.

2. If in any case particular dates in the calendar have been fixed for the payment of interest, or for the repayment of instalments of debt, then such repayments should not begin until the second of the half-yearly dates so fixed, after the loan has been completely taken up, simple interest only being recovered on the first half-yearly date after the completion of the loan. For example, supposing a loan the interest on which is recoverable half-yearly to be completely taken up on 31st March and the interest to be payable on 30th June and 31st December following. Simple interest only will be due on the intermediate 30th June.

3. Notes 1 and 2 are applicable, *mutatis mutandis*, to loans the repayments of which are made by other than half-yearly instalments.

141. (Cancelled.)

[C. A. C., Vol. I, 8th Edn., No. 208, dated 1st April 1923.]

India does not ordinarily sanction any additional allotments during the currency of a year.

*138. A Provincial Government should, as far as possible, regulate the transactions of the year according to the provision made in the sanctioned estimate under each of the classes enumerated in Rule 27 of Annexure to Audit Resolution II in the Book of Financial Powers; and as demands are apt to arise in a sudden and unforeseen way, care should be taken to reserve for such demands such an amount as experience may show to be necessary. Deviations from the sanctioned estimate are permissible only under Rule 28 (9) of the Annexure mentioned above.

Interest payable by and to Provincial Governments.

*139. Interest at 5½ per cent. a year is charged to Provincial Governments on the mean between the outstanding balance at the commencement and the outstanding balance at the close of each year as shown in the books of the Account Office. On the other hand, Provincial Revenues are credited with the full amount of interest received on these loans and advances at the rates fixed in each case by the Provincial Government under Rule 28 (6) of the Annexure referred to in Article 138. Any sums which it may be necessary to write off as irrecoverable [*vide* Rule 28 (7) of the same Annexure] must be at once charged to Provincial Revenues and credited to the advance account.

NOTE 1.—The minimum rate of 6 per cent. is not applicable to loans sanctioned prior to the 1st April 1917, nor to later instalments of loans already sanctioned, but not taken up in full, before that date, unless a stipulation to the contrary was made when the loans were sanctioned. Similarly, the rate of 5½ per cent. chargeable to Provincial Revenues should be applied to loans sanctioned on and from the 1st April 1917, those sanctioned between the 1st October 1916 and the 31st March 1917 being charged at the rate of 4½ per cent. and those sanctioned prior to the 1st October 1916 at 3½ per cent. It will be necessary, therefore, for the purpose of calculating the interest chargeable to Provincial Revenues on the Provincial Loan Account to maintain the accounts of these loans in three classes, *viz.*, those sanctioned prior to the 1st October 1916, those sanctioned between the 1st October 1916 and the 31st March 1917 and those sanctioned on or after the 1st April 1917; and the interest chargeable in any year will consist of (*i*) interest at the rate of 3½ per cent. on the mean between the outstandings at the commencement and at the close of the year in respect of loans sanctioned prior to the 1st October 1916 *plus* (*ii*) interest at 4½ per cent. on the mean between similar outstanding balances of loans sanctioned between the 1st October 1916 and the 31st March 1917 *plus* (*iii*) interest at 5½ per cent. on the mean between similar outstanding balances of loans sanctioned on or after the 1st April 1917.

NOTE 2.—When loans to Co-operative Credit Societies are granted free of interest, a separate account should be kept and the total deducted from the total balance of the Provincial Loan Account before interest at the rate which the Provincial Government is charged is calculated thereon.

Conditions of Repayment.

140. The following rules apply, so far as the law and existing regulations allow, to all advances of the kind included in the Provincial Loan Accounts:—

(*a*) The term of loans under the Local Authorities Loans Act may in very special cases extend to 30 years, but ordinarily the

advances should be repaid within as short a period as possible.

(*b*) The term is to be calculated from the date on which the loan is completely raised or declared by the Provincial Government to be closed.

(*c*) It will be optional with each Provincial Government to fix its own dates for the payment of the instalments.

(*d*) Instalments paid before the due date will be taken entirely to principal, unless, of course, any interest for a preceding period is overdue.

1. When a loan of public money is taken out in instalments, the first half-yearly repayment should not be demanded until six months after the last instalment is taken; meanwhile simple interest only should be realized. But should it appear that there is undue delay on the part of the debtor in taking out the last instalment of a loan, the Provincial Government may at any time declare the loan closed, and order repayment of capital to begin. The Accountant General should bring to notice any delay that appears to him to require this remedy and he should take this step whether there are any dates fixed for the taking of instalments or not.

2. If in any case particular dates in the calendar have been fixed for the payment of interest, or for the repayment of instalments of debt, then such repayments should not begin until the second of the half-yearly dates so fixed, after the loan has been completely taken up, simple interest only being recovered on the first half-yearly date after the completion of the loan. For example, supposing a loan the interest on which is recoverable half-yearly to be completely taken up on 31st March and the interest to be payable on 30th June and 31st December, the first half-yearly instalment in repayment of principal will not be due until 31st December following. Simple interest only will be due on the intermediate 30th June.

3. Notes 1 and 2 are applicable, *mutatis mutandis*, to loans the repayments of which are made by other than half-yearly instalments.

*141. Subject to any further restrictions or concessions which may be specially authorised by the Government of India or the Secretary of State in any case, the rules in Article 140 apply, so far as may be, also to all loans and advances sanctioned by those authorities.

Forms of Drawing and Repaying.

142. The vouchers on which a loan or an advance is drawn must quote the authority sanctioning such loan or advance.

*143. In repaying a loan or advance, the memorandum presented at the treasury must state the original date and amount of the loan or advance, or otherwise give sufficient particulars for its identification. If the amount repaid includes interest as well as principal, the interest must be separately specified; and if the repayment is a fixed periodical amount, including both interest and principal, the orders fixing the amount should be quoted.

1. It must be remembered that the calculation fixing the amount of equal periodical instalments, by which an advance is repaid with interest, presupposes punctual payment of the instalments, and that, if any instalment is not punctually repaid, the fixed instalment will not in the end discharge the loan.

No. 28.

Article 138—

Substitute the following for this Article :—

"**138.** As unforeseen demands are apt to arise suddenly, care should be taken to reserve for such demands such an amount as experience may show to be necessary."

(C. A. C., I., 8th Edition, Reforms List, No. 28—1-4-21.)

No. 29.

Article 139—

Substitute the following for this Article and the Notes thereunder:—

"**139.** Provincial revenues are credited with the full amount of interest received on these loans and advances and if any sums lent prove irrecoverable they must at once be charged to provincial revenues and credited to the advance account."

(C. A. C, I., 8th Edition, Reforms List, No. 29—1-4-21.)

No. 292.

Page 58, Article 142—

At the end add "but no part of such loan or advance can be disbursed from the treasury except under the orders of the Principal Auditor".

[C. A. C. I., 8th Edn., No. 292, dated 1-12-23.]

No. 30.

Article 145—

In clause (a) of this Article omit the comma after 'local Government' *in line 3 and for the rest of the Article substitute* "or to the Governor General in Council, whichever sanctioned the loan. On receipt of such a report, the local Government or the Governor General in Council should immediately take steps to remedy the default."

Cancel the last sentence of clause (b) of this Article, commencing with the words 'See also Rule 28 (8), etc.'

(C. A. C., I., 8th Edition, Reforms List, No. 30—1-4 21.)

No. 31.

Article 146—

Insert a full stop after ' special reasons ' *in line 3 and cancel the rest of the Article.*

(C. A. C., I., 8th Edition, Reforms List, No. 31—1-4-21.)

No. 209.

Page 59, Footnote—

Substitute the following for the footnote :—

† Form 39 of the Account Code, 1st Edition.

[C. A. C., Vol. II, 8th Edn., No. 209, dated 1st April 1923.]

Calculation of Interest.

144. A loan bears interest for the day of advance, but not for the day of repayment. Interest for any shorter period than a complete half-year will be:—Number of days÷365 × yearly rate of interest.

Defaults in Payment.

145. (*a*) Any default in the payment of interest upon a loan of public money, or in the repayment of the principal, should be promptly reported by the Account Department to the local Government, and if the loan was sanctioned by the Governor General in Council or the Secretary of State and does not belong to the Provincial Loan Account, to the Supreme Government also. A local Government receiving such a report should immediately take steps to remedy the default and in the case of a loan sanctioned by the Governor General in Council or the Secretary of State which does not belong to the Provincial Loan Account, should immediately explain the circumstances to the Government of India in the Administrative Department concerned, and report the steps so taken.

NOTE 1.—The responsibility imposed on the Account Department by this rule refers only to the loans the detailed accounts for which are kept up by that Department.

NOTE 2.—In the case of loans granted to Indian States the Accountants General also submit annual† reports to their respective local Governments by the 1st August by whom they are forwarded to the Government of India in the Foreign Department with further information regarding loans raised by Indian States under Government guarantee and with such remarks as they consider necessary.

*(*b*) The authority which sanctions a loan may, in so far as the law allows, enforce a penal rate of compound interest upon all overdue instalments of interest, or principal and interest. If a penal rate is enforced it should not be less than 8 per cent. per annum. See also Rule 28 (8) of the Annexure to Audit Resolution II in the Book of Financial Powers.

***146.** Borrowers should be required to adhere strictly to the terms settled for the loans made to them. Modifications of those terms in their favour can be made subsequently only for very special reasons and with the sanction of the Government of India or the Provincial Government, as may be necessary under the rules in the Book of Financial Powers.

Revenue Advances.

Definition.

147. The following special procedure is prescribed for the drawing and accounting of Revenue Advances which include *takavi* advances, advances under the Land Improvement Acts, and any other advances which revenue officers are allowed or directed to make in connection with Land Revenue, Agriculture, or Famine, under any Act of the Legislature, or under any order of Government.

†Form 180A, Civil Account Code, Volume II, 7th Edition.

Treasury Accounts and Procedure.

148. Revenue advances will be issued from the treasury upon orders signed or countersigned by the Collector of the district or other duly authorised officer. The Treasury Department and the Accountant General shall take no further cognizance of these advances, beyond holding them in a separate advance account at the debit of the officer who authorises the advance. For all further accounts and supervision, the Revenue Department shall be responsible.

NOTE.—*Takavi* advances may be made either direct to the parties concerned and on their receipt (stamped when necessary) or in lump sums on abstract bills to officers disbursing *takavi*.

In the former case the charges should be supported by actual payees' receipts or where these are required for the Revenue Officer by a certificate from the Collector or other duly authorised officer to the effect that the payments have been made to the proper parties and their receipts duly taken and filed in the Revenue Office.

In the latter case the following safeguards should be adopted :—

(1) No officer disbursing *takavi* should be allowed to draw a second abstract bill without producing a detailed bill to account for the amounts already disbursed from the last advance taken, any balance left being at the same time refunded into the Government treasury. In no case should the submission of the detailed bill be delayed beyond the end of the month following that in which the advance was drawn from the treasury.

The disbursing officers should be directed to take the receipts of the payees on the spot as soon as the advances have been made, and to certify at the foot of the detailed bill that the advances were duly sanctioned by them and paid in their presence.

Payees' receipts need not be sent with the detailed bill and their names need not be shown in it.

(2) Collectors should prescribe a money limit for the amount which can be drawn on abstract bills by each officer with due regard to the circumstances of each case.

Plus *and* Minus *Memorandum.*

149. (*a*) In every treasury whence revenue advances have been made, one or more plus and minus memoranda should be kept, in which the advances should be debited and all recoveries credited. One of these plus and minus memoranda shall be the ordinary account of revenue advances and other special accounts shall be opened from time to time for any special officers authorised to make advances, who may, under the orders of the Revenue Authorities, keep and submit accounts separate from the general account of the district officer.

(*b*) The plus and minus memoranda maintained under clause (*a*) will be submitted with the monthly treasury accounts, and will be under the order of the Accountant General, whose care it will be that they accurately represent the credits, debits and balances that pass upon his accounts in respect of revenue advances of the district or officer concerned.

(*c*) No officer authorised to make advances may question the accuracy of the plus and minus memorandum as the record of his responsibility, otherwise than by satisfying the Accountant General of its erroneousness, and causing him to correct it. Every officer, therefore, should see that the debits and credits made to his account accurately correspond with

No. 210.

Page 61, Article 151—with note thereunder as introduced by Reforms List of corrections No. 32, dated 1st April 1921.

Reconstruct this Article as under :—

"151. A Local Government has power to remit advances to cultivators which are found to be irrecoverable."

[C. A. C., Vol. I, 8th Edn, No. 210, dated 1st April 1923.]

No. 32.

Article 151—

Add as a Note under this Article :—

"NOTE.—The local Government of a Governor's Province or Burma has full powers to write off irrecoverable loans, and remit advances and to delegate such powers to authorities subordinate to it as it considers suitable."

(C. A. C., I., 8th Edition, Reforms List, No. 32—1-4-21.)

those which enter his own registers and returns. If he is not the District Officer, he should obtain from the treasury a copy of the plus and minus memorandum with which he is concerned. Special care should be taken in paying recoveries into the treasury that the amount of interest and of principal recovered be separately and distinctly credited, as the former must not, and the latter must, be credited in the plus and minus memorandum.

Revenue Department Returns.

150. (*a*) With every return of revenue advances made to the Revenue Authorities a memorandum should be submitted setting forth the figures of the treasury plus and minus account, and agreeing them with the figures of the return.

(*b*) The Accountant General will, at the close of every half-year's accounts, send to the Board of Revenue or other Chief Revenue Controlling Authority a return in such form as may be agreed on, showing the figures that pass upon his books in respect of revenue advances. The object of the statement is to enable the Chief Revenue Authority to check the reconciliation prescribed in clause (*a*).

Irrecoverable Loans and Advances.

151. Any irrecoverable loans and advances coming under the Provincial Loan Account may be written off under the orders of the local Government which may delegate this power in the case of loans and advances under the Land Improvement and Agriculturists' Loans Acts to a subordinate revenue authority subject to such conditions as to amount, etc., as it may think fit to impose. Any local Government has power to remit advances to cultivators, which are found to be irrecoverable.

152. In the case of Revenue Advances, it shall be the duty of the Revenue Authorities, as soon as any such advance is ascertained to be irrecoverable, to cause the amount of it to be written off the accounts, and to advise the Accountant General, in order that he may charge off the amount as expenditure and direct its being written off the treasury plus and minus memorandum. Such irrecoverable advances should nevertheless be registered by the Revenue Authorities in a separate account or record, in order that any possible eventual recovery may be made; but they will not affect the treasury plus and minus memorandum, and any recoveries will be taken as revenue.

Periodical Review.

153. Local Governments will arrange to receive annual reports upon outstanding loans from the responsible Account Officer and should then bring the transactions under separate review.